MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BFN3204 – CREDIT ANALYSIS AND LENDING MANAGEMENT

(All sections / Groups)

23rd OCTOBER 2019
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Questions paper consists of 2 pages with 4 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1 (25 MARKS)

Malaysia's household debt growth has been moderating for seven consecutive years to 4.9% as at end-2017 [2010: 14.2% (peak)]. This follows a series of measures implemented by the Government and the Bank since 2010, coupled with strengthened lending practices by both banks and major non-bank financial institutions (NBFIs). Risks associated with the accumulation of unsecured borrowings have also receded considerably with growth of personal loans moderating from a peak of 25.2% in 2008 to 2.5% in 2017. As a result, the ratio of household debt-to-GDP declined to 84.3% [2015: 89% (peak)].

More importantly, this deleveraging occurred without adversely affecting private consumption and economic growth. Despite these positive developments, the Bank remains vigilant towards attendant risks from household debt. Research has shown that the negative long-run effects on economic growth tend to intensify as the household debt-to-GDP ratio exceeds a certain threshold. The Bank's earlier study concluded that individual borrowers are more likely to have negative financial margin if they (i) earn less than RM3,000 per month; and/or (ii) have a Debt Service Ratio (DSR) level of above 60%. By income group, a large portion of the debt-at-risk is from borrowers with monthly income of RM3,000-5,000, as this income group has the largest number of borrowers with negative financial margin (FM).

A borrower's FM is defined as his or her monthly disposable income and liquid financial assets, after deducting debt repayments and expenditure on basic necessities. In the event of unexpected income and expenditure shocks, individual borrowers with negative FM would be the most vulnerable as they have a higher risk of defaulting on their debt. The debt-at-risk metric, derived from the FM methodology in turn measures the potential losses emanating from borrowers with negative FM, after taking into account collateral values. Borrowers in this income group have larger exposure to motor vehicle loans (22%) and personal financing (30%), and are within the younger age bracket.

Source: Financial Surveillance, Bank Negara Malaysia - March 2018

a) Critically discuss **THREE (3)** types of credit qualities of the borrowers required by most of financial institutions to avoid the bad debts. **(12 marks)**

a) To what extend the financial institutions may have affected by the risks of these unsecured borrowings? **(5 marks)**

b) Explain the important factors in financial institutions' collection policies in securing the payment from the borrowers. **(8 marks)**

Continued...

QUESTION 2 (25 MARKS)

a) What are the main characteristics of revolving consumer loan? **(5 marks)**

b) Explain **FOUR (4)** credit risk assessment process including the external and internal factors. **(20 marks)**

QUESTION 3 (25 MARKS)

a) Discuss **THREE (3)** utmost important purpose of good management of accounts receivables. **(9 marks)**

b) Most financial institutions and credit companies use credit scoring models for their customer worthiness' evaluation. Briefly explain **FOUR (4)** advantages of credit scoring. **(16 marks)**

QUESTION 4 (25 MARKS)

Explain the whole litigation process for debt recovery in Malaysia. **(25 marks)**

End of Page